

## **Testimony submitted by Frederick R Nader, 3775 Wedgewood Drive, Bloomfield Hills, MI 48301**

First of all, let's be clear about the recent poll that Insurance Commissioner Clinton showed last week.

- It is true that approximately 3/4 of all Michigan drivers feel that they are paying too much for auto insurance but
- It is also true that approximately 2/3 of all Michigan drivers do NOT want to change the current auto no fault system of benefits
- This is approximately the same number of people who voted to retain the current auto no-fault law in three previous referendum elections.

Michigan's high cost of insurance is primarily caused by collision cost which is roughly 50% of the cost of an auto insurance premium. PIP on the other hand is less than 20%. It is simply not statistically possible to achieve any long term goal of lowering auto insurance rates when you are trying to attach the smallest part of the premium cost. If this committee is truly interested in lowering auto insurance premiums in Michigan, then you MUST investigate the entire bill and not a component that represents 20%.

Recently, Insurance Commissioner Clinton also stated that Geico would not sell auto insurance in Michigan because it was not profitable enough. Well I can safely assure you that both Flo and the lovable Gecko are here in Michigan selling auto insurance. In fact, one of the Michigan House Representatives recently shopped for auto insurance for his mother who happens to live in Detroit. She received a \$6,000 per year quote from Flo and a \$3,000 per year quote from the lovable Gecko. So... not only is Geico here in Michigan selling auto insurance but they are aggressively quoting rates that are 50% of Progressive.

The MCCA has repeatedly stated that auto insurance companies are routinely charged exceptional higher fees than other health insurance companies. Well..... this is simply not true. In fact, US Federal Law requires all medical providers to charge everyone at the same exact rate. Failure to do so would put the medical provider in violation of Federal law. In fact, the auto insurance providers routinely use companies such as cofinity-auto to reimburse medical providers at a fee schedule basis. My daughter has a medical bill that was paid 8 months after medical services were provided and the bill was paid using a fee schedule that reimbursed the doctor \$291.90 on a \$735 medical bill. A copy of this bill is included with my testimony.

The MCCA has also stated a need to eradicate fraud. This is an interesting topic because I believe that all law abiding citizens are fully supportive of punishing people and companies that commit fraud. The fact is that this issue MUST be applied to both the people receiving benefits as well as the insurance companies.

- Insurance companies routinely agree to out-of-court settlements where their penalties (including legal fees) are rolled up into the settlement in a manner that allows them to be fully reimbursed by the MCCA. This is fraud!
- We have a friend who has had a rented wheelchair accessible minivan for 5 years while she continues to negotiate with her insurance provider over the vehicle agreement. So... while this negotiation continues, the insurance company has paid about \$180,000 in van rental while they attempt to negotiate a vehicle agreement worth less than \$60,000. These monthly rental bills are submitted to the MCCA for reimbursement by the insurance company. This is also fraud!

### **Administrative Cost**

The MCCA reports that their administrative costs are only 37 cents per vehicle. And while the MCCA reports this cost as being extremely low, the fact is that it represents a substantial increase in administrative costs over a fairly short period of time.

- In 2009 the MCCA administrative cost was reported at \$0.10 per vehicle
- In 2010 the MCCA administrative cost was reported at \$0.20 per vehicle
  - This is a doubling of administrative cost in one year

- Currently, the MCCA administrative cost is reported at \$0.37 per vehicle
  - This cost represents a nearly 4 times increase in administrative cost during a period in our economic history where industry overall was dramatically reducing their cost and overhead
  - During this same time period the gross liabilities paid by the MCCA remained relatively flat
  - During this same period between 2009 – 2012 Michigan companies were struggling to survive and dramatically reduced administrative costs.
    - In 2008 I had 2 personal administrative assistants
    - In 2009 our 5 executive management team began sharing one admin
    - In 2010 our employees took a 20% reduction in pay and our management team took a 40% reduction in pay in order to save our business
  - What has caused the MCCA administrative cost to nearly quadruple in 4 years? The truth is that we (and you) have absolutely no idea what has caused this to happen because the MCCA refuses to accept a Michigan court ruling that states that the MCCA is subject to the Open Meetings Act and to the Freedom of Information Act.

### Asset Value

- In June of 2009 the MCCA reported asset value was approximately \$10 billion
- In 2010, the MCCA began methodical increases in the annual assessment and also stopped using the fund return on investment dividends to offset annual assessment costs to the insured drivers
- In June of 2012 the MCCA reported asset value had grown to approximately \$14.3 Billion
  - This represents a 40% increase in net asset value during a time when the MCCA continued to raise annual assessments and not include ANY asset dividends to reduce insured driver cost!
  - Despite the fact that the net fund asset had grown substantially, there was no mention of any unfunded liability shortfall until 2011
- Based on MCCA testimony that their investment portfolio typically follows the S&P500, I believe we can safely estimate that the MCCA net asset value today is at least \$16 BILLION

### Annual Assessment and insurance cost

**According to MCCA testimony there are 6,666,666 insured vehicles in Michigan.** This number is derived from MCCA testimony that the current unfunded liability is \$2,000,000,000 and that this number represents about \$300 per insured vehicle.

#### **What is the MCCA Annual Assessment today and why?**

Currently, the MCCA annual assessment is \$175 per vehicle. According to MCCA testimony, \$141.93 is applied to cover projected liabilities and \$32.72 is applied to future projected unfunded liabilities.

**$\$141.93 \times 6,666,666 \text{ vehicles} = \$946,000,000$**  while their **projected liabilities are estimated at \$900,000,000.**

- There is also a portion of the assessment amount applied toward future unfunded liabilities. This is stated currently at  **$\$32.72 \text{ per vehicle } (6,666,666) = \$218,133,311$**
- **This means that the total annual revenue required by the MCCA to fund all current and future liabilities is \$1,164,133,311 according to their actuarial testimony!**
- **As of June 30, 2012 the MCCA fund audited valued was \$14,284,453,117**
- In late March, 2013 the MCCA testified that their average long term annual return on investment has been about 6.5% and that their annual return typically follows the S&P500
  - **$6.5\% \text{ of } \$14,284,453,117 = \$928,489,452$** 
    - **The average return on investment from the MCCA fund assets is enough to cover the cost of annual projected liabilities!**
- There are about 8,000,000 vehicles in Michigan
  - 6,666,666 insured
  - 1,333,333 uninsured (20% of insured vehicles according to the MCCA)
- By collecting the MCCA amount with license plate tab renewal, we will capture all vehicles

- As an example, if all Michigan drivers were assessed \$50/year by the Secretary of State it would generate **\$400,000,000** annual revenue. This amount added to the MCCA fund average return on investment of 6.5% provides annual revenue of **\$1,328,489,452**
  - This amount is **\$164,356,141** more than the MCCA currently requires according to their own testimony.
- **Implementing this plan would provide Michigan drivers with an immediate insurance rate reduction of \$125 per vehicle without ANY reduction of current benefits.**

Also based on MCCA testimony that the asset base typically follows the S&P500, we can assume that the current asset amount today is roughly **\$16,427,121,084**. If we apply the same above assumptions of 6.5% return on investment + \$50 per Michigan vehicle at tab renewal, it would generate a surplus of **\$303,629,559** over the financial requirements as currently stated by the MCCA. The net asset value of the MCCA fund is rapidly approaching a value where the fund could be converted into an annuity that would provide Michigan drivers with catastrophic medical coverage for free without any reduction in medical benefits!

Unfortunately, the true rationale the insurance industry uses to justify its continuing assessment rate increases is unknown because they operate in secret. They refuse to fully open their books so we can fully understand; their actuarial variables and the assumptions applied to these variables, the overall rate of return and other basic information essential to a true understanding of the facts. They are so determined to keep the information secret they have gone to court to fight disclosing how they are handling money belonging to the insured drivers. The MCCA is simply over-charging Michigan drivers and we must insist on complete and open transparency in order to understand what action (if ANY) really needs to be done. Then and only then can we move on to a discussion focused on cost containment and eventual reduction.

I am opposed to HB4612 and would like to summarize my testimony with the reasons why:

- HB4612 expands government
- HB4612 includes a hidden tax to fund the current Medicaid shortfall
  - I believe that we should cover the current Medicaid shortfall and I also believe that we should fund Medicaid expansion. I am however totally opposed to any hidden tax that is buried inside of an auto insurance policy. Additionally, I own 4 cars and do not feel that it is fair that I get to pay this hidden tax 4 times while another taxpayer may not pay at all! If you are going to tax people, then do it honestly and above the board.
- HB4612 shifts cost from private insurance to Medicaid
  - This will simply destroy families and further expand Medicaid while it increases insurance profits
- HB4612 reduces the insurance company liability from \$530,000 per person to \$530,000 per vehicle regardless of the number of people in the car. Imagine yourself carpooling in a minivan with 7 passengers and having a serious accident!
- HB4612 removes our legal right to sue for damages while it simultaneously exposes us to significantly greater liability.

I initially struggled to find the core Republican values in HB4612.... Then I realized that the problem is not a lack of core Republican values..... it is a total lack of any values!

I urge every member of this Insurance Committee to carefully read every page of HB4612 and think about the consequences to your own Families before you vote!

Thank you for allowing me to testify today.

# CORVEL

## Explanation of Review

Insured: [REDACTED]  
Patient: Erica Nader-Coulston  
[REDACTED]

Business Unit: Harleysville Insurance Co. Auto  
PO Box 244  
Harleysville, PA 19438

Patient DOB:  
Gender:

Independent Emergency Phys PC  
Denise A. Shuttie M.D.  
PO Box 672363  
Detroit, MI 48267-2363



LOB: Auto  
Site/Bill #: 164/1280060 - 1  
Reprice: MI, 48374  
[REDACTED]  
[REDACTED]  
[REDACTED]

Approved Date: 03/26/2013  
DOS From - To: 07/21/2012 - 07/21/2012

COPY

Network: Cofinity	Treating Provider: DENISE SHUTTIE	Claim #: W0266783-004
Network Branch: Cofinity - Auto	Referring Physician:	Processor Initials: SLB
Sub Network:	Patient Control #: IEP02592429101	DOI: 10/07/2001
Contract:	Provider Tax Id: 38-3345124	RX Number:
Claim Rep.: VF		
Vendor #:		
PIN:		
Coverage Type: MED PAY		

### Bill Comments

Professional Review Completed by TB, CPC

Date	Code	Units	POS	Bill Charges TOS	DXR	Reduction	Allowed Fees
07/21/2012	99285	EMERGENCY DEPT VISIT	0	\$735.00		\$443.10	\$291.90
	02P, 350	1	23		1,2		
<b>Sub-Totals for Bill: 1280060</b>				<b>\$735.00</b>		<b>\$443.10</b>	<b>\$291.90</b>
<b>Totals for Bill: 1280060</b>							<b>\$291.90</b>

### Line Item Reason Codes and Descriptions

02P Allowance/Review determined by Professional Review 350 Network Allowance

*This bill has been evaluated against the prevailing billing practices for medical providers within your geographic area. The reimbursement rate may therefore be different than the amount billed.*

### ICD9 Diagnosis

590.80 Unspecified Pyelonephritis  
780.60 FEVER UNSPECIFIED

Questions regarding this bill may be sent to:

Harleysville Insurance  
PO Box 244  
Harleysville, PA 19438

Toll free: (800) 491-8350  
Phone: (856) 532-6000  
Fax: (856) 661-9800